



POLICY/TITLE	FINANCIAL AUDIT OF WATER AND SEWAGE PROJECTS ASSISTED THROUGH MINISTRY DIRECT GRANTS AND THE FEDERAL COMMUNITY SERVICES CONTRIBUTION PROGRAM	NO. 06-03-01
<p><u>Legislative Authority</u></p> <p>N/A</p>		
<p><u>Statement of Principles</u></p> <p>This policy describes the requirements of the Provincial Auditor with respect to projects assisted by the Ministry and the Federal Community Services Contribution Program.</p>		
<p>1. <u>Provincial Auditor's Requirements</u></p> <p>The Provincial Auditor requires that water and sewage projects assisted by Ministry direct grants or by the Federal Community Services Contribution Program receive financial audits to confirm that the costs identified are eligible for assistance.</p>		
<p>2. <u>Action By MOE Management Audit Branch and Project Engineering Branch</u></p> <p>An engineer from Project Engineering Branch will be delegated to identify for the auditor items (if any) included in the certified statement of final costs that are ineligible with respect to the Ministry Direct Grant.</p>		
<p><u>Point of Contact</u> Director, Management Audit Branch</p>		
<p><u>Effective Date</u></p> <p>February 17, 1981</p>		

In addition, he is to provide Management Audit Branch with:

- (a) A copy of the authorization and/or approval for the Direct and/or CSCP Grant;
- (b) Details of the calculation of the percentage and amount of Grant(s).
- (c) A copy of a Ministry Certificate of Expenditure, if applicable, issued by Financial and Capital Management Branch.

Where the project also qualified for a CSCP grant, the engineer will be required to identify for the auditor those items which are eligible for inclusion in calculating the CSCP grant.

The engineer and auditor will co-sign the Certificate of Eligibility.

3. Eligible Costs

The following specifies costs that are eligible for grants:

3.1 Land Costs

- (a) Only the cost of land area actually used for a treatment plant or a pumping station is eligible. The cost of land for sewers or watermain is not eligible. The cost of land required to obtain isolation (buffer zone) distances to meet Provincial standards is eligible. The costs of easements are not eligible, but the legal costs of arranging easements are;
- (b) Only the cost of the land area actually used is allowed. No portion of the land cost may be for land held for other or possible future uses even if by necessity extra land is purchased with the land used;
- (c) The cost of the land to be included in the eligible cost is to be the actual cost of the land to the municipality regardless of the date when the land was purchased;

- (d) Any property taxes paid as part of the land cost to a former owner are allowable, but, no amount is allowable in lieu of tax for any period when title is with the municipality.
- (e) Legal, survey and appraisal fees incurred at the time of purchase may be included in either "Legal" or "Miscellaneous" categories.

3.2 Construction Costs

These will include amounts actually and properly paid to contractor(s) for the performance of the work covered by the plans and specifications for the projects.

- (a) Total allowable construction costs are eligible even if they have not yet been paid as long as there is a contractual obligation of a fixed amount to be paid; normal holdbacks are allowable; other disputed costs may be eligible once final settlements are made.
- (b) The cost of change orders to plans and specifications are allowed. Also, costs of work done on a cost-plus basis or on purchase orders are allowed if pertinent to the same project whether done by a contractor or the municipality with its own forces.
- (c) Cost of repairs and damages to streets, roads, railways, easements, public utilities and other similar costs are allowed as a cost if these are specifically related to the project's construction. However, for example, it is not intended to recognize the cost of a street and road being completely reconstructed rather only the cost of restoring the "as was" condition is recognized.
- (d) Cost of unfinished work is not allowed as construction cost.
- (e) The cost of awards made to the Contractor by a Board of Arbitration or a court of law are eligible if relevant to the project.

- (f) If a contractor does work that is partly eligible and partly ineligible as is the case when sewers and laterals are done under the same contract as trunk and collector sewers, the cost of each must be determined.
- (g) A consultant's final certificate regarding construction is considered good voucher evidence of the final cost of the related work. If the municipality does the work the vouchers should be checked in detail.
- (h) Should a municipality utilize the municipality's own forces to perform all or part of the construction work, the calculation of construction costs eligible for grants may include a payroll burden to be added to labour costs.

Such a payroll burden can include actual fringe benefit payments (including paid vacation, statutory holidays, sick leave, down time, etc.) as charged by the municipality to its own public works projects, based on a formula that excludes overhead or administrative expenses, and is deemed reasonable and acceptable by the MOE.

3.3 Engineering Costs

For CSCP and MOE Direct Grant purposes, actual costs of design and/or supervision of construction of the project in accordance with the rates established by the Association of Professional Engineers of the Province of Ontario are eligible. For construction begun prior to April 1, 1980, a flat rate of 12% of the construction costs is allowed for MOE Direct Grant purposes.

- (a) The cost allowed cannot be more than the actual amount paid to the consultant(s).

- (b) Design cost is limited to those costs related to the specific project for which the grant is made and is not to include any part of the cost of an overall study or survey of pollution problems and control. Preliminary surveys and report costs are not allowable unless they relate exclusively to the project and are necessary for proper design.
- (c) If any part of the design and/or supervision is supplied by the applicant's own forces the cost is limited to not more than the fee and costs that might have been paid according to the scales of the Association of Professional Engineers of Ontario.
- (d) In any event no cost may be included that might be considered an administrative or executive cost of engineering supervision.

3.4 Materials and Equipment Costs

The amounts actually paid for materials and equipment used in or located at the site and required in connection with the projects are eligible where such amounts are not included under 3.2

- (a) Materials supplied by the municipality if not in the contract price may be allowed as a cost but only in the exact amount that the municipality paid for them. There can be no other added amount for administration or handling.
- (b) Only materials actually delivered to the site will be allowed.
- (c) The cost of movable equipment not included in the permanent works such as loaders, spare pumps, trucks, are not eligible.

(d) Where a municipality uses its own equipment in the construction of the project, a charge for the use of equipment is allowable. The allowable charge is to be calculated on the same basis as the municipality charges the use of the same equipment to its public works projects.

3.5 Legal Costs

Amounts actually paid for legal services are eligible subject to the following:

- (a) Fees for a solicitor on the municipality's staff are not eligible. However, disbursements to third parties for items such as registration, legal surveys, and appraisals are allowed.
- (b) Miscellaneous expenses of the municipality which are required in connection with the project can be included under legal expenses. Examples are advertising regarding by-laws, disbursements for permits to other municipalities; any provincial fee or charge; advertising for tenders; or insurance for public liability.
- (c) The legal services paid for must relate solely to the project and are not to be administrative or executive in nature.

3.6 Interest (CSCP only)

Interest paid or payable during the period of construction must meet the requirements below for eligibility:

- (a) The period of construction can only start at the date of commitment of the funds and must end at the completion date of the project which is always a month-end. Completion date is that date on which the works were put into operation or the date shown on a Certificate of Completion as the date of substantial completion, whichever is the earlier.

- (b) The interest cost may be taken as the cost of the effective debenture rate. Premiums and discounts must be amortized to fix the effective debenture rate.
- (c) Bank interest charges are to be at the rate paid.
- (d) The funds must be borrowed from a third party, but this can be another sector of a municipal operation provided that no tax funds are borrowed.
- (e) The total amount of funds borrowed must equal total funds paid to third parties for the project. However, borrowings do not have to match exactly outlays during the period of payment.
- (f) If a municipality can give evidence of borrowings in the amounts expended for the project, the interest costs incurred will be entirely allowable even though it can be demonstrated that there were a number of other capital projects under construction during the same time period. Where evidence cannot be given, interest costs should be pro-rated between all the projects, if possible, or excluded. No interest will be allowed on municipal tax funds used to finance the project.
- (g) No interest is allowed for the costs covered by the MOE Direct Grant(s) as the grants are paid "up-front".

3.7 Miscellaneous Costs

Other costs may be approved subject to the following:

- (a) The same cost cannot be recognized for two separate projects. Such costs should be pro-rated as and if necessary.
- (b) The cost of the project will not include any charge or allowance for municipal administration or executive costs.

3.8 Finalization of Eligible Costs

In order to state eligible costs for both grants under one audit, the CSCP Grant (excluding any interest consideration) will be finalized when the audit is performed. While the municipality may subsequently receive a larger amount as a CSCP grant than the amount used in the calculation of the Ministry grant, due to the inclusion of interest charges, it would not be equitable to deduct the interest included in the CSCP payment thus reducing the Ministry grant since eligible cost will not include any interest charges.

3.9 Verification of Final Cost Statement

Where a CSCP Grant is involved the auditor will have two eligible costs to determine. Using the information supplied by the engineer, the auditor will proceed to verify the costs using standard auditing techniques.

During the audit, the auditor must receive a certified list of all Provincial and/or Federal Grants received on the project.

The municipality must also provide Internal Audit Branch with details of any interim financing involved with respect to the CSCP Grant.

4. Final Payment

Based on the audited statement of costs, Project Co-ordination Branch will prepare final payment forms and forward to Financial Services Branch using the same procedures that apply to other grant payments.

4.1 Overpayment

Based on audited statement costs, Project Engineering Branch will prepare final advance forms indicating overpayment and forward to the Capital Financing Section, Financial and Capital Management Branch, for the preparation of an invoice to the Municipality.